

Message Text

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ACTION EA-10

INFO OCT-01 EB-07 ISO-00 L-02 AGR-05 CIAE-00 COME-00

INR-05 LAB-01 NSAE-00 RSC-01 SP-02 STR-01 TRSE-00

SWF-01 CIEP-01 FRB-01 OMB-01 H-01 /040 W

----- 129302

R 270603Z NOV 74

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 8677

INFO AMEMBASSY SINGAPORE

C O N F I D E N T I A L BANGKOK 18650

SINGAPORE FOR GEBER

E.O. 11652: GDS

TAGS: ETRD, EAGR, TH

SUBJECT: COTTON CONTRACTS DEFAULTS

REF: A. STATE 256222; B. BANGKOK 17943

1. RTG FULLY SEIZED ALL RAMIFICATIONS DEFAULTS ON COTTON CONTRACTS. LAST WEEK AS PROMISED MINISTRY OF COMMERCE CALLED IN THREE KNOWN DELINQUENT COMPANIES AND ASSURED EMBASSY INTER-MINISTERIAL CONSULTATIONS WERE PRECEDING FIND SOLUTION TO PROBLEM.

2. ONE DAY VISIT ANTHONY GEBER FROM STATE EA NOVEMBER 25 PROVIDED EMBASSY FOR FIRST TIME WITH COMPLETE LIST OF DELINQUENTS TOTALING TEN COMPANIES. ACCOMPANIED BY ECON COUNSELOR AND AGATT GEBER CALLED ON COMMERCE MINISTRY DIRECTOR-GENERAL OF FOREIGN TRADE SUTHEE AND PRESENTED FULL LIST. SUTHEE INDICATED HE WOULD NOW SUMMON ALL TEN COMPANIES FOR FULL-SCALE REVIEW OF PROBLEM AND REITERATED PREVIOUS ASSURANCES RTG WOULD DO EVERYTHING POSSIBLE TO INDUCE COMPANIES TO HONOR THEIR CONTRACTS. DELAY UNFORTUNATE BUT HIGHLIGHTS NECESSITY FOR DEPARTMENT TO KEEP EMBASSY FULLY INFORMED OF ALL ASPECTS THIS CASE. DEPENDENCE
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SHOULD NOT BE ON DIRCT MAILINGS FROM AMERICAN COTTON

SHIPPERS ASSOCIATION. THEIR LETTER LISTING DELINQUENT COMPANIES AND STATISTICS ONLY ARRIVED MONDAY EVENING.

3. DURING MEETING WITH SUTHEE GEBER REEMPHASIZED USG'S GRAVE CONCERN AND EXPLAINED REGIONAL NATURE PROBLEM INDICATING THAT INABILITY TO RESOLVE ISSUE IN THAILAND MIGHT JEOPARDIZE ARRANGEMENTS REACHED ELSEWHERE. SUTHEE REPEATED HIS ASSURANCES OF FULLEST COOPERATION BUT POINTED OUT THAT HIS POWERS BOTH OVER DELINQUENT FIRMS AND ABOUT MAKING SPECIAL CREDIT ARRANGEMENTS EXTREMELY LIMITED. HE SHOWED INTEREST WHEN GEBER IN HIS PRESENTATION ALLUDED TO ADDITIONAL CCC CREDITS TO KOREA AND PHILIPPINES. GEBER SUGGESTED THAT IF RTG CAN MAKE CONVINCING CASE DEPARTMENT WOULD EXPLORE POSSIBILITIES FURTHER CCC CREDITS. SUTHEE INDICATED THIS MIGHT BE HELPFUL AND AFTER HE HAD TALKED TO COMPANIES AND CONSULTED FURTHER WITHIN RTG HE WOULD BE ABLE GIVE EMBASSY A BETTER ASSESSMENT.

4. ECON COUNSELOR INQUIRED IF SUTHEE HAD HEARD FROM FOREIGN MINISTER AS AMBASSADOR HAD DISCUSSED MATTER WITH HIM JUST BEFORE CHARUNPHAN'S RECENT TRIP TO MANILA. SUTHEE REPLIED HE HAD NOT HEARD FROM FOREIGN MINISTER BUT THIS IS PROBABLY DUE TO EXTREMELY HEAVY SCHEDULE FOR MINISTER FOLLOWING HIS RETURN TO BANGKOK AND CHARUNPHAN WOULD BE CONSULTED. EMBASSY INTENDS TO RAISE MATTER AGAIN WITH CHARUNPHAN TO ASSURE HE IS SEIZED WITH GRAVITY SITUATION.

5. GEBER MEETING WITH ACSA LAWYER (WITH WEIL BROTHERS REP PRESENT) REVEALED THAT LAWYER IS IN PROCESS OF CIRCULATING ACSA TO SUBMIT DEFAULTED CONTRACTS TO LIVERPOOL ARBITRATION AND ALSO URGING THEM TO INSTITUTE BOYCOTT AGAINST DEFAULTING THAI FIRMS. WE WARNED THAT THRUST OF ARBITRATION AND BOYCOTT MAY SHORT-CIRCUIT OUR EFFORTS THROUGH RTG GOVERNMENT OF REACHING SOLUTION SINCE FIRMS MIGHT THEN SIMPLY WISH TO AWAIT OUTCOME OF POSSIBLY LONG PROCESS OF ARBITRATION AND LITIGATION. WE NATURALLY COULD NOT ANSWER IF AND HOW SOON OUR EFFORTS MAY BE SUCCESSFUL. WETOLD HIM THAT WE WOULD REPORT TO DEPARTMENT AND URGE DEPARTMENT DISCUSS MATTER WITH ACSA. SUBSEQUENTLY, LAWYER ASSURED ECONOMIC COUNSELOR HE PLANNED ADVISE ACSA HOLD OFF

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UNTIL RESULTS RTG EFFORTS BECAME APPARENT. HE WAS SKEPTICAL OF RTG ABILITY INFLUENCE DELINQUENT MILLS. DETERMINATION OF WHEN TO PROCEED WITH ARBITRATION IS OF COURSE DECISION FOR ACSA TO MAKE.

6. GEBER MEETING WITH TEXTILE MANUFACTURING ASSN. WAS NOT FRUITFUL. THEY DISCLAIMED ANY ABILITY TO INFLUENCE THEIR MEMBERS AND URGED THAT SHIPPERS DEAL WITH MILLS ON CASE-BY-

CASE BASIS AND BE READY TO REACH COMPROMISE. THEY REVEALED THAT CONTRARY TO ASSERTIONS OF COTTON SHIPPERS IFR WASHINGTON, WHEN PRICES WERE RISING THERE WERE NUMEROUS INSTANCES OF SHORT (WEIGHT OF INDIVIDUAL BASES LIGHTER THAN CHARGED) SHIPMENTS BY US SUPPLIERS. WHEN COMPLAINTS WERE MADE SHIPPERS SUGGESTED ARBITRATION WHICH, HOWEVER, WOULD NOT HAVE COMPENSATED BUYERS FOR TAXES PAID ON FULL AMOUNT CONTRACT. AGATT CONFIRMED THAT THIS WAS THE CASE REPORTED TO WASHINGTON AT THAT TIME.

7. WE HAVE GOOD REASON TO BELIEVE THAT RTG WILL MAKE A SERIOUS EFFORT TO TRY TO FIND SOLUTION. IT REMAINS TO BE SEEN WHETHER THEY WILL SUCCEED IN LIGHT BS THDAR LIMITED POWERS ANAYAPPARENT INTRANSIGENCE OF MILLS. GEBER'S PRESENCE WAS USEFUL IN BRINGING HOME US DOMESTIC CONCERNS AND REGIONAL ASPECTS OF PROBLEM. EMBASSY WILL CONTINUE TO FOLLOW UP ON URGENT BASIS.

8. EMBASSY WOULD ALSO APPRECIATE KNOWING IF OUR PRESENT PUSH TO SECURE CONTRACT COMPLIANCE ALSO INCLUDES CONTRACTS FOR NON-US GROWTH COTTON, ESPECIALLY SINCE SOME SHIPPERS ARE MAKING DEALS IN WHICH THEY SUBSTITUTED NON-US COTTON.

9. AMBASSADOR'S COMMENT: IT SHOULD BE BORNE IN MIND THAT RTG DOES NOT HAVE SAME LEVERAGE ON PRIVATE MILLS AS OTHER EA COUNTRIES INVOLVED IN CONTRACT DEFAULTS. RTG HAS NO PUNITIVE DEVICES SUCH AS IMPORT LICENSES AVAILABLE TO INDUCE COMPLIANCE. FOR EXAMPLE, COTTON IMPORTS ARE ON A FREE LICENSING SYSTEM. FURTHER, THIS IS AN INTERIM GOVERNMENT DISPOSED TO POSTPONE UNPLEASANT DECISIONS UNTIL A NEW GOVERNMENT TAKES OFFICE NEXT FEBRUARY. NONETHELESS, RTG HAS A FULL APPRECIATION OF OUR PROBLEM AND HAS ASSURED US CONFIDENTIAL

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THEY WILL EXERT WHATEVER INFLUENCE THEY CAN TO INDUCE DELINQUENT MILLS TO FULFILL THEIR OBLIGATIONS. WE WILL KEEP PRESSURE ON THE RTG AND SUGGEST ADDITIONAL RTG CREDIT FACILITIES FOR MILLS IF CREDITS ARE INDEED THE PROBLEM. WE BELIEVE IN SOME CASES CREDITS MAY BE THE PROBLEM BUT WITH MOST DEFAULTING MILLS IT IS SIMPLY THE HIGH CONTRACT PRICE COMPARED WITH CURRENT MARKET PRICE.

ON OUR SIDE, WE SHOULD BE PREPARED TO OFFER ADDITIONAL CCC CREDITS ALONG LINES CREDITS BEING CONSIDERED FOR KOREA AND PHILIPPINES SHOULD MINISTRY OF COMMERCE DETERMINE THIS WILL HELP SOLVE PROBLEM. DEPARTMENT MIGHT ALSO WISH EXPLORE WITH COTTON SHIPPERS ASSOCIATION POSSIBILITY OF SOME FLEXIBILITY IN RENEGOTIATING CONTRACTS, POSSIBLY ON PRICE BUT AT LEAST ON DELIVERY SCHEDULES. SOME GIVE ON PART SHIPPERS

MIGHT ASSIST EMBASSY AND RTG IN EFFORT SECURE COMPLIANCE.
SOME OF MILLS ARE IN PRECARIOUS FINANCIAL POSITION WITH
HEAVY INVENTORIES FINISHED PRODUCTS. BANKRUPTCY OF
SOME MILLS ALWAYS A POSSIBILITY AND THIS ROUTE WULD COMPLETELY
DEFEAT US SHIPPER OBJECTIVES.

I FULLY APPRECIATE NATURE HEAVY CONGRESSIONAL PRESSURES
ON DEPARTMENT AND WE WILL CONTINUE DO ALL WE CAN TO RESOLVE
PROBLEM. AT SAME TIME IT WOULD BE ADVISABLE FOR DEPARTMENT
TO MINIMIZE CHANCES ANY CONGRESSIONAL BACKLASH MY MAKING
CLEAR THE LIMITED LEVERAGE OF USG AND RTG IN RESOLVING
THIS PRIVATE CONTRACT DISPUTE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, BUSINESS FIRMS, SERVICE CONTRACTS, DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BANGKO18650
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740344-0154
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974119/aaaaahjd.tel
Line Count: 182
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A. STATE 256222; B. BANGKOK 17943
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 09 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Aug-2002 by cunninfx>; APPROVED <12 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON CONTRACTS DEFAULTS
TAGS: ETRD, EAGR, TH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005